

# **CITY OF ALBION**

**Independent Auditors' Reports  
Basic Financial Statements  
Supplementary and Other Information  
Schedule of Findings**

**June 30, 2013**

# CITY OF ALBION

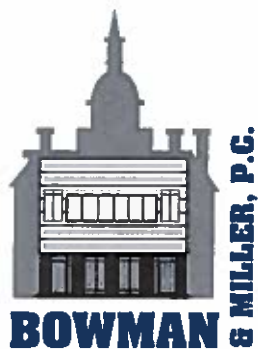
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## **CITY OF ALBION**

### **Officials**

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Term Expires</u></b>
Gary Larson	Mayor	Jan 2014
Patrick Hemming	Mayor Pro Tem	Jan 2014
Darren Smith	Council Member	Jan 2014
Robert Abrahams	Council Member	Jan 2014
Todd Kelley	Council Member	Jan 2014
Lynne Borton	Council Member	Jan 2014
Karen Betts	Clerk/Treasurer	Indefinite
Barry Kaplan	Attorney	Indefinite



C E R T I F I E D   ♦   P U B L I C   ♦   A C C O U N T A N T S

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Independent Auditors' Report Elizabeth A. Miller, CPA • beth@bowmanandmillerpc.com  
Nathan P. Minkel, CPA • nathan@bowmanandmillerpc.com

To the Honorable Mayor and  
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Albion, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

As permitted by the Code of Iowa, the accounting records of the City have not been audited for prior years. Accordingly, we are unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2012.

## Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2012, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Albion as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Albion's basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 9 and 21 through 23 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express such an opinion or provide any assurance on it.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2013 on our consideration of the City of Albion's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Albion's internal control over financial reporting and compliance.

*Bowman and Miller, P.C.*

Marshalltown, Iowa  
September 29, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Albion provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2013 FINANCIAL HIGHLIGHTS**

- The cash basis net position of the City's governmental activities increased approximately 7.7% or \$27,962, from fiscal year 2012 to fiscal year 2013.
- The cash basis net position of the City's business type activities decreased \$29,950 or approximately 30%, in fiscal year 2013 from fiscal year 2012.
- The City's total cash basis net position decreased .43% or approximately \$2,000 from June 30, 2012 to June 30, 2013.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

### **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases and decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- **Governmental Activities** include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business Type Activities** include the waterworks and sanitary sewer systems. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) **Governmental funds** account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) **Proprietary funds** account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the city.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$361,129 to \$389,091. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities	
	Year Ended June 30, 2013
Receipts:	
Program receipts:	
Charges for service	\$ 19,922
Operating grants, contributions and restricted interest	93,551
General receipts:	
Property tax	87,993
Local option sales tax	47,608
Unrestricted interest on investments	307
Miscellaneous	1,812
Sale of capital assets	700
Total receipts	<u>251,893</u>
Disbursements:	
Public safety	53,429
Public works	46,491
Health and social services	530
Culture and recreation	68,868
Community and economic development	300
General government	35,549
Debt service	14,960
Capital projects	3,804
Total disbursements	<u>223,931</u>
Change in cash basis net position	27,962
Cash basis net position beginning of year	<u>361,129</u>
Cash basis net position end of year	<u>\$ 389,091</u>

The City's cash basis net position for governmental activities increased \$27,692, due primarily to the increase in property tax revenue and a decrease in street maintenance expense.

The cost of all governmental activities this year was approximately \$224,000. However, as shown on the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$110,458 because some of the cost was paid by those directly benefited from the programs (\$19,922) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$93,551). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service. The City paid for the remaining "public benefit" portion of governmental activities (\$110,458) with taxes (some of which could only be used for certain programs) and with other receipts, such as interest and other general receipts.



Changes in Cash Basis Net Position of Business Type Activities	
	Year Ended June 30, 2013
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 48,693
Sewer	49,038
Operating grants, contributions and restricted interest	130
Capital grants, contributions and restricted interest	70,308
General receipts:	
Loan proceeds	166,123
Sale of capital assets	500
Total receipts	<u>334,792</u>
Disbursements:	
Water	298,573
Sewer	66,169
Total disbursements	<u>364,742</u>
Change in cash basis net position	(29,950)
Cash basis net position beginning of year	<u>99,944</u>
Cash basis net position end of year	<u>\$ 69,994</u>

The City's cash basis net position for business type activities decreased \$29,950, due primarily to expenses related to the water facilities system upgrade.

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Albion completed the year, its governmental funds reported a combined fund balance of \$389,091, an increase of \$27,962 from last year's total of \$361,129. The following are the major reasons for the changes in fund balance of the major funds from the prior year.

- The General Fund cash balance increased \$8,925 from the prior year to \$96,814. The increase is due to an increase in the property tax levy rate generating additional tax revenue and decreasing transfers out to other funds.
- The Special Revenue, Road Use Tax Fund cash balance increased by \$6,153 to \$129,241 during the fiscal year. The increase was primarily due to a decrease in the amount expended for snow and ice removal.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased by \$15,204 to \$150,936 during the fiscal year. The increase was primarily due to fewer disbursements related to capital improvements.
- The Debt Service Fund cash balance remained approximately the same from 2012. This fund is used to pay off general obligation bonds and notes. In 2013, the City transferred funds from the Local Option Sales Tax Fund to pay a portion of the debt.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased by \$13,113 to \$33,723, primarily due to disbursements related to the water facilities project.
- The Enterprise, Sewer Fund cash balance decreased by \$16,837 to \$36,271, primarily due to an increase in sewer system upgrades and supplies.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended their budget once. The amendment was approved on May 20, 2013 and resulted in an increase in operating disbursements of approximately \$388,857. The amendment was made to provide for additional disbursements in certain City departments, including costs associated with the construction of the water facilities project.

The City exceeded the amounts budgeted in the culture and recreation and capital projects functions for the year ended June 30, 2013.

## DEBT ADMINISTRATION

At June 30, 2013, the City had \$192,897 in notes outstanding, compared to \$40,518 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2013	2012
General obligation note	\$ 26,774	40,518
Revenue note	166,123	-
Total	\$ 192,897	40,518

Debt increased as a result of the issuance of a SRF Drinking Water Facilities revenue note to fund the new water facilities project.

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The city's outstanding general obligation debt of \$26,774 is below its constitutional debt limit of \$777,008. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Albion's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates, and fees that will be charged for various City activities.

The City is working on a capital project to update their water system facilities. The City has received a Community Development Block Grant and a State Revolving Loan in the amount of \$400,000 to help fund the project. A rate increase in water usage was implemented to help service the debt.

The City's property tax base appears to be stable and may increase which should allow for little or no change to the current property tax levy.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karen Betts, City Clerk , at P.O. Box 219, Albion, LA 50005.

**CITY OF ALBION**  
**Cash Basis Statement of Activities and Net Position**  
**As of and for the year ended June 30, 2013**

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 53,429	778	20,116	-
Public works	46,491	69	48,362	-
Health and social services	530	-	-	-
Culture and recreation	68,868	12,600	25,073	-
Community and economic development	300	-	-	-
General government	35,549	6,475	-	-
Debt service	14,960	-	-	-
Capital projects	3,804	-	-	-
Total governmental activities	<u>223,931</u>	<u>19,922</u>	<u>93,551</u>	<u>-</u>
Business type activities:				
Water	298,573	48,693	86	70,308
Sewer	66,169	49,038	44	-
Total business type activities	<u>364,742</u>	<u>97,731</u>	<u>130</u>	<u>70,308</u>
<b>Total</b>	<b>\$ <u>588,673</u></b>	<b><u>117,653</u></b>	<b><u>93,681</u></b>	<b><u>70,308</u></b>
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Local option sales tax				
Unrestricted interest on investments				
Loan proceeds				
Miscellaneous				
Sale of capital assets				
<b>Total general receipts</b>				
<b>Change in cash basis net position</b>				
<b>Cash basis net position beginning of year</b>				
<b>Cash basis net position end of year</b>				
<b>Cash Basis Net Position</b>				
Restricted:				
Expendable:				
Streets				
Debt service				
Other purposes				
Unrestricted				
<b>Total cash basis net position</b>				

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
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Governmental Activities	Business Type Activities	Total
----------------------------	-----------------------------	-------

(32,535)	-	(32,535)
1,940	-	1,940
(530)	-	(530)
(31,195)	-	(31,195)
(300)	-	(300)
(29,074)	-	(29,074)
(14,960)	-	(14,960)
(3,804)	-	(3,804)
(110,458)	-	(110,458)

-	(179,486)	(179,486)
-	(17,087)	(17,087)
-	(196,573)	(196,573)

(110,458)	(196,573)	(307,031)
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87,993	-	87,993
47,608	-	47,608
307	-	307
-	166,123	166,123
1,812	-	1,812
700	500	1,200

138,420	166,623	305,043
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27,962	(29,950)	(1,988)
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361,129	99,944	461,073
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\$ 389,091	69,994	459,085
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\$ 129,241	-	129,241
1	23,344	23,345
163,035	-	163,035
96,814	46,650	143,464

\$ 389,091	69,994	459,085
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**CITY OF ALBION**  
**Statement of Cash Receipts, Disbursements and**  
**Changes in Cash Balances**  
**Governmental Funds**  
**As of and for the year ended June 30, 2013**

		Special Revenue		
	General	Road Use Tax	Local Option Sales Tax	Debt Service
<b>Receipts:</b>				
Property tax	\$ 74,443	-	-	-
Other city tax	2,847	-	47,608	-
Intergovernmental	27,220	48,362	-	-
Licenses and permits	475	-	-	-
Charges for service	15,551	-	-	-
Use of money and property	307	-	-	-
Miscellaneous	23,677	-	-	-
Total receipts	144,520	48,362	47,608	-
<b>Disbursements:</b>				
Operating:				
Public safety	52,491	-	-	-
Public works	4,282	42,209	-	-
Health and social services	530	-	-	-
Culture and recreation	62,852	-	-	-
Community and economic and development	300	-	-	-
General government	32,625	-	-	-
Debt service	-	-	-	14,960
Capital projects	-	-	3,804	-
Total disbursements	153,080	42,209	3,804	14,960
Excess (deficiency) of receipts over (under) disbursements	(8,560)	6,153	43,804	(14,960)
<b>Other financing sources (uses):</b>				
Sale of capital assets	700	-	-	-
Operating transfers in	16,785	-	-	14,960
Operating transfers out	-	-	(28,600)	-
Total other financing sources (uses)	17,485	-	(28,600)	14,960
Net change in cash balances	8,925	6,153	15,204	-
Cash balances beginning of year	87,889	123,088	135,732	1
Cash balances end of year	\$ 96,814	129,241	150,936	1
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Streets	\$ -	129,241	-	-
Debt service	-	-	-	1
Other purposes	-	-	150,936	-
Assigned for:				
Equipment	16,884	-	-	-
Fire and first responders	17,739	-	-	-
Library	6,415	-	-	-
Unassigned	55,776	-	-	-
Total cash basis fund balances	\$ 96,814	129,241	150,936	1

See notes to financial statements.

Nonmajor	Total
10,307	84,750
396	50,851
-	75,582
-	475
-	15,551
-	307
-	23,677
10,703	251,193

938	53,429
-	46,491
-	530
6,016	68,868
-	300
2,924	35,549
-	14,960
-	3,804
9,878	223,931

825	27,262
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-	700
1,619	33,364
(4,764)	(33,364)
(3,145)	700
(2,320)	27,962
14,419	361,129
12,099	389,091

-	129,241
-	1
12,099	163,035
-	16,884
-	17,739
-	6,415
-	55,776
12,099	389,091

**CITY OF ALBION**  
**Statement of Cash Receipts, Disbursements**  
**and Changes in Cash Balances**  
**Proprietary Funds**  
**As of and for the year ended June 30, 2013**

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 48,693	49,038	97,731
Total operating receipts	48,693	49,038	97,731
Operating disbursements:			
Business type activities	55,100	66,169	121,269
Total operating disbursements	55,100	66,169	121,269
Deficiency of operating receipts under operating disbursements	(6,407)	(17,131)	(23,538)
Non-operating receipts (disbursements):			
Intergovernmental	70,308	-	70,308
Interest on investments	86	44	130
Water revenue bond proceeds	166,123	-	166,123
Debt service	(2,169)	-	(2,169)
Capital projects	(241,304)	-	(241,304)
Net non-operating receipts (disbursements)	(6,956)	44	(6,912)
Deficiency of receipts under disbursements	(13,363)	(17,087)	(30,450)
Sale of capital assets	250	250	500
Net change in cash balances	(13,113)	(16,837)	(29,950)
Cash balances beginning of year	46,836	53,108	99,944
Cash balances end of year	\$ 33,723	36,271	69,994
<b>Cash Basis Fund Balances</b>			
Restricted for debt service	\$ 23,344	-	23,344
Unrestricted	10,379	36,271	46,650
Total cash basis fund balances	\$ 33,723	36,271	69,994



# CITY OF ALBION

## Notes to Financial Statements

### June 30, 2013

#### Note 1 – Summary of Significant Accounting Policies

The City of Albion is a political subdivision of the State of Iowa located in Marshall County. It was first incorporated in 1870 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

#### A. Reporting Entity

For financial reporting purposes, the City of Albion has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Albion has no component units which meet the Governmental Accounting Standards Board criteria.

#### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Marshall County Assessor's Conference Board, Marshall County Emergency Management Commission, Marshall County Solid Waste Disposal Commission, Marshall County Joint E911 Service Board and Region Six Planning Commission.

#### B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require cash balances to be maintained permanently by the City.

**CITY OF ALBION**  
**Notes to Financial Statements (Continued)**  
**June 30, 2013**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation (Continued)**

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for projects financed by local option sales tax.

The Debt Service Fund is used to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

**CITY OF ALBION**  
**Notes to Financial Statements (Continued)**  
**June 30, 2013**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation (Continued)**

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

**C. Measurement Focus and Basis of Accounting**

The City of Albion maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Governmental Cash Basis Fund Balances:**

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal law or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

# CITY OF ALBION

## Notes to Financial Statements (Continued)

### June 30, 2013

#### Note 1 – Summary of Significant Accounting Policies (Continued)

##### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceed the amounts budgeted in the culture and recreation and capital projects functions.

#### Note 2 – Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

#### Note 3 – Notes Payable

Annual debt service requirements to maturity for the general obligation note and a water revenue note are as follows:

Year Ending June 30,	General Obligation Note		SRF Drinking Water Facilities Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 6,400	803	166,123	7,344	172,523	8,147
2015	6,592	611	-	-	6,592	611
2016	6,789	414	-	-	6,789	414
2017	6,993	210	-	-	6,993	210
Total	\$ 26,744	2,038	166,123	7,344	192,897	9,382

**CITY OF ALBION**  
**Notes to Financial Statements (Continued)**  
**June 30, 2013**

**Note 3 – Notes Payable (continued)**

The SRF drinking water facilities note was issued for the purpose of defraying a portion of the costs of carrying out a water project of the City. The resolution providing for the issuance of the revenue note included the following provisions: (a) the note will only be redeemed from the future earnings of the enterprise activity, water fund and the note holders hold a lien on the future earnings of the fund.

**Note 4 – Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the city contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2013 was \$7,240 equal to the required contribution for the year.

**Note 5 – Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's had no liability for earned vacation payments payable to employees at June 30, 2013.

**Note 6 – Risk Management**

The City of Albion is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**CITY OF ALBION**  
**Notes to Financial Statements (Continued)**  
**June 30, 2013**

**Note 7 – Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue: Local Option Sales Tax	\$ 14,960
General	Special Revenue: Local Option Sales Tax Emergency Services	12,021 <u>4,764</u> 16,785
Special Revenue: Employee benefits	Special Revenue: Local Option Sales Tax	<u>1,619</u>
Total		<u>\$ 33,364</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**Note 8 – Operating Lease**

The City has entered into a lease for a copy machine. The lease expires on August 4, 2016 and requires annual payments of \$900. The following is a schedule by year of the annual lease cost required under the operating lease.

<u>Year Ending June 30,</u>	<u>Annual Rent Due</u>
2014	\$ 900
2015	900
2016	<u>900</u>
Total	<u>\$ 2,700</u>

The total annual lease cost for the year ended June 30, 2013 was \$900.

**Note 9 – Commitment**

The City has entered into a contract with Weidner Construction for \$462,000 for the water system facilities improvement project. At June 30, 2013, there was still \$288,625 remaining to be paid on the contract.

**Note 10 – Date of Management Evaluation**

The City has evaluated subsequent events through September 29, 2013, the date which financial statements were available to be issued.

## Other Information

**CITY OF ALBION**  
**Budgetary Comparison Schedule of Receipts, Disbursements,**  
**and Changes in Balances-Budget and Actual (Cash Basis)**  
**All Governmental Funds and Proprietary Funds**  
**Other Information**  
**Year ended June 30, 2013**

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 84,750	-
Other city tax	50,851	-
Intergovernmental	75,582	70,308
Licenses and permits	475	-
Charges for service	15,551	97,731
Use of money and property	307	130
Miscellaneous	23,677	-
Total receipts	<u>251,193</u>	<u>168,169</u>
Disbursements:		
Public safety	53,429	-
Public works	46,491	-
Health and social services	530	-
Culture and recreation	68,868	-
Community and economic development	300	-
General government	35,549	-
Debt service	14,960	-
Capital projects	3,804	-
Business type activities	-	364,742
Total disbursements	<u>223,931</u>	<u>364,742</u>
Excess (deficiency) of receipts over (under) disbursements	27,262	(196,573)
Other financing sources, net	<u>700</u>	<u>166,623</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	27,962	(29,950)
Balances beginning of year	<u>361,129</u>	<u>99,944</u>
Balances end of year	<u>\$ 389,091</u>	<u>69,994</u>



Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
84,750	83,595	83,595	1,155
50,851	57,738	57,738	(6,887)
145,890	72,915	282,915	(137,025)
475	565	565	(90)
113,282	101,460	101,460	11,822
437	15,419	15,419	(14,982)
23,677	11,820	16,874	6,803
419,362	343,512	558,566	(139,204)
53,429	47,552	54,404	(975)
46,491	52,600	52,600	(6,109)
530	2,005	2,005	(1,475)
68,868	59,112	66,117	2,751
300	300	300	-
35,549	40,354	40,354	(4,805)
14,960	14,960	14,960	-
3,804	-	-	3,804
364,742	100,831	475,831	(111,089)
588,673	317,714	706,571	(117,898)
(169,311)	25,798	(148,005)	(21,306)
167,323	-	275,000	(107,677)
(1,988)	25,798	126,995	(128,983)
461,073	440,372	440,372	20,701
459,085	466,170	567,367	(108,282)

# **CITY OF ALBION**

## **Notes to Other Information – Budgetary Reporting**

### **June 30, 2013**

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$388,857. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the culture and recreation and capital projects functions.

## Supplementary Information

**CITY OF ALBION**  
**Schedule of Cash Receipts, Disbursements and**  
**Changes in Cash Balances**  
**Nonmajor Governmental Funds**  
**As of and for the year ended June 30, 2013**

	Special Revenue		
	Employee Benefits	Emergency Services	Total
<b>Receipts:</b>			
Property tax	\$ 7,978	2,329	10,307
Other city tax	306	90	396
Total receipts	8,284	2,419	10,703
<b>Disbursements:</b>			
Operating:			
Public Safety	938	-	938
Culture and recreation	6,016	-	6,016
General Government	2,924	-	2,924
Total disbursements	9,878	-	9,878
Excess (deficiency) of receipts over (under) disbursements	(1,594)	2,419	825
Other financing sources (uses):			
Operating transfers in	1,619	-	1,619
Operating transfers out	-	(4,764)	(4,764)
Total other financing sources (uses)	1,619	(4,764)	(3,145)
Change in cash balances	25	(2,345)	(2,320)
Cash balances beginning of year	12,074	2,345	14,419
Cash balances end of year	\$ 12,099	-	12,099
<b>Cash Basis Fund Balances</b>			
Restricted for other purposes	\$ 12,099	-	12,099
Total cash basis fund balances	\$ 12,099	-	12,099

**CITY OF ALBION**  
**Schedule of Indebtedness**  
**Year ended June 30, 2013**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation note:			
Library note	Feb 15, 2007	3.00%	\$ 80,000
Revenue note:			
SRF Drinking Water Facilities note	Mar 8, 2013	1.75%	400,000
Total			

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$	40,518	-	13,744	26,774	1,216	-
	-	166,123	-	166,123	169	-
\$	40,518	166,123	13,744	192,897	1,385	-

**CITY OF ALBION**  
**Bond and Note Maturities**  
**June 30, 2013**

Year Ending June 30,	General Obligation Note Library		SRF Drinking Water Facilities Note		
	Issued February 15, 2007		Issued March 8, 2013		
	Interest		Interest		
	Rates	Amount	Rates	Amount	Total
2014	3.00 %	\$ 6,400	1.75 %	\$ 166,123	\$ 172,523
2015	3.00	6,592		-	6,592
2016	3.00	6,789		-	6,789
2017	3.00	6,993		-	6,993
		<u>\$ 26,774</u>		<u>\$ 166,123</u>	<u>\$ 192,897</u>



C E R T I F I E D   ♦   P U B L I C   ♦   A C C O U N T A N T S

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Independent Auditors' Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Albion, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 29, 2013. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Albion's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Albion's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Albion's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Albion's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings to be a material weakness.



### Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the City of Albion's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operation for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### City of Albion's Responses to Findings

The City of Albion's responses to findings identified in our audit are described in the accompanying Schedule of Findings. City of Albion's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Albion during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Bowman and Miller, P.C.*

Marshalltown, Iowa  
September 29, 2013

**CITY OF ALBION**  
**Schedule of Findings**  
**Year ended June 30, 2013**

**Part I: Summary of the Independent Auditors' Results:**

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**CITY OF ALBION**  
**Schedule of Findings**  
**Year ended June 30, 2013**

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCY:**

**II-A-13 Segregation of Duties** – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- (1) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.
- (2) Cash – reconciling bank accounts, initiating cash receipts and disbursement transactions and handling and recording cash
- (3) Long-term debt – recording and reconciling.
- (4) Receipts – collecting, depositing journalizing and posting.
- (5) Utility receipts – billing, collecting, depositing, posting and reconciling
- (6) Disbursements – preparing, recoding and reconciling.
- (7) Payroll – preparing and distributing

**Recommendation** – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. In instances where it is not possible to segregate duties, the City should utilize administrative personnel to provide additional internal control through review of financial transactions and reports.

**Response** – Though we only have one person the council will be more proactive and will conduct random checks.

**Conclusion** – Response accepted.

**Part III: Other Findings Related to Required Statutory Reporting:**

**III-A-13 Certified Budget** – At June 30, 2013 disbursements exceed the amounts budgeted in the culture and recreation and capital projects functions.

**Recommendation** – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

**Response** – Now that we are aware of what we did not include when reviewing the disbursements we will add them in the future to determine that the budget is not exceeded.

**Conclusion** – Response accepted.

**CITY OF ALBION**  
**Schedule of Findings**  
**Year ended June 30, 2013**

**Part III: Other Findings Related to Required Statutory Reporting (continued):**

III-B-13 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 24, 1979.

III-C-13 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-13 Business Transactions – No business transactions between the City and City officials or employees were noted.

III-E-13 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-13 Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the Council minutes but were not.

The Council went into closed session on January 21, 2013. The minutes record did not document the vote of each member of the council as required by Chapter 21.5 of the Code of Iowa.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and take roll call vote of each council member when going into closed session.

Response – We will make sure we do a roll call vote in the future and document it in the minutes.

Conclusion – Response accepted.

III-G-13 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted..

III- H -13 Transfers – The transfers from the Special Revenue, Local Option Sales Tax Fund to the Special Revenue, Employee Benefits Fund and to the General Fund were not approved by the City Council.

Recommendation – All transfers should be approved by the City Council.

Response – We will make sure that the Council approves all transfers in the future.

Conclusion – Response accepted.

## **CITY OF ALBION**

**Staff**

**This audit was performed by:**

**Bowman and Miller, P.C.  
Certified Public Accountants  
Marshalltown, IA 50158**

**Personnel:**

**Elizabeth A. Miller, C.P.A., Partner  
Nathan Minkel, C.P.A., Partner  
Diana Swanson, Staff**